

INTRODUCING THE NARROWING EXCEPTIONS FOR WITHHOLDING TAXES ACT

HON. FORTNEY PETE STARK

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, January 31, 2012

Mr. STARK. Mr. Speaker, I rise today to introduce the Narrowing Exceptions for Withholding Taxes Act. This legislation will close a loophole in existing tax law that allows certain self-employed individuals to avoid paying their fair share of Medicare payroll taxes.

Medicare is financed in part by a payroll tax paid by employers and employees. The total tax is 2.9 percent split between workers and employers. Self-employed individuals pay the full 2.9 percent themselves.

Under current law, the S corporation structure allows certain self-employed individuals a way to avoid paying full Medicare taxes. Income received as compensation for services to that S corporation will be subject to the Medicare payroll tax, but any income classified as a distribution of profits will be exempt. This loophole in our tax law encourages income manipulation. These individuals pay themselves a nominal income for their services to the S corporation and classify most of their income as profits and dividends, to avoid paying the 2.9 percent payroll tax.

The House Democrats first tried to close this loophole in December 2009 with H.R. 4213, the American Jobs and Closing Tax Loopholes Act. That bill passed the House, but did not pass the Senate. At the time, the Joint Committee on Taxation scored this provision as raising \$11.2 billion in revenue over ten years.

The IRS does not have the resources to audit all 4 million S corporations to ensure that there is no underreporting of income. The Treasury Inspector General for Tax Administration, the Joint Committee on Taxation and the GAO have all highlighted the systematic underreporting of income. The GAO estimated that pass-through organizations underpaid \$15 billion in 2001, with a median payroll tax underpayment of \$20,127.

Teachers, firefighters, and nurses can't structure their income to avoid payroll taxes. This is a strategy for lawyers, lobbyists, and investment managers. This legislation would close this loophole by targeting the individuals most likely to take advantage of this loophole. These are professional service businesses built on the reputation and skill of three or fewer employees in the field of health, law, lobbying, engineering, architecture, accounting, investment advice or management, or brokerage services. Under this provision, all of the profits someone gets from an S-corporation they own would be subject to the payroll tax. These shareholders will no longer be able to underreport wage income to exclude the rest of their earnings from the payroll tax.

Former House Speaker Newt Gingrich took advantage of this loophole. When he filed his 2010 taxes, he reported earnings from his two S Corporations of just \$444,327 in income but \$2.4 million in profits and dividends. This nearly \$3 million was just earnings in the same year from the same two organizations. How-

ever, by choosing to report only \$444,327 as wage income, the Wall Street Journal estimated that Mr. Gingrich saved himself \$69,000 in Medicare payroll taxes. His \$2.4 million in profits and dividends was exempt from the 2.9 percent payroll taxes due to a flaw in our tax laws.

This legislation would put our workers on an even playing field. Self-employed individuals would no longer have the option to avoid the taxes with the creative use of a pass-through entity. Just like those individuals who work in an ordinary partnership or sole proprietorship, or work for a larger institution, every taxpayer would pay his or her fair share toward the Medicare trust fund.

HONORING THE AMERICAN BU- REAU OF SHIPPING ON THEIR 150TH ANNIVERSARY

HON. GENE GREEN

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Tuesday, January 31, 2012

Mr. GENE GREEN of Texas. Mr. Speaker, I rise today to recognize the American Bureau of Shipping for their 150 years at the forefront of setting the standard of excellence in marine and offshore classification in the United States and around the world.

From its world headquarters in Houston, Texas, the American Bureau of Shipping, or ABS, manages the third largest class society on the globe, with a classed fleet of over 10,000 commercial vessels, in more than 150 offices in 70 countries.

From the time it was first chartered in the State of New York in 1862 as the American Shipmasters' Association, ABS has been committed to the maritime industry and deeply involved in its technical development and the improvement of its safety standards.

Born out of a need for industry self-regulation, ABS published its first technical standards, Rules for Survey and Classing Wooden Vessels, in 1870. When the era of wooden ships gave way to iron, ABS established standards for these structures, and later for steel vessels.

ABS was officially recognized by the U.S. Government in the Merchant Marine Act of 1920, requiring that in work involving a classification organization, every governmental agency in the United States would turn to ABS.

ABS has continued its tradition of leading the classification and maritime safety industry through the 20th and 21st centuries by being the first society to publish rules for the construction and classing of offshore drilling units, submersibles, and aluminum vessels, as well as the first society to classify small-waterplane-area twin hull (or SWATH) vessels, floating production storage and offloading (or FPSOs) vessels.

I congratulate ABS, its Board of Directors, and its hard-working employees for their commitment to the Houston community and for 150 more years of success as the world leader in maritime classification and safety.

CONGRESS SALUTES AMERICAN HERO AND PURPLE HEART RE- CIPIENT CHARLES HENRY KLINGELHOEFER

HON. BILL POSEY

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, January 31, 2012

Mr. POSEY. Mr. Speaker, I rise today to bring to my colleagues' attention to the Posthumous Purple Heart Ceremony of WW I Veteran Mr. Charles Henry Klingelhoefer born April 16, 1876 in Baltimore, Maryland, taking place in Brevard County, Florida. He is survived by his niece Ms. Diane Roberts Vess of Melbourne. More specifically, on February 6, 2012, the United States Coast Guard will honor the memory of the brave men who served on the United States Coast Guard Cutter *Tampa*. Mr. Klingelhoefer, one of five brothers, was assigned to the United States Coast Guard Cutter *Tampa*, and served as a Warrant Carpenter.

The Purple Heart was presented in honor of those who received fatal wounds in the sinking of the United States Coast Guard Cutter *Tampa* at 8:45 p.m. on September 26, 1918—the largest known loss of life by any U.S. naval combat unit during World War I. Under the command of Captain Charles Satterlee, the *Tampa* served as a convoy escort protecting ships carrying critical Allied war material in European waters. The officers and crew earned the praise of the commander of the United States Naval Forces based at Gibraltar for the ship's wartime operational effectiveness.

On that fateful evening, having just completed another successful escort mission from Gibraltar to the United Kingdom, the *Tampa* departed the convoy and proceeded toward the port of Milford Haven, Wales. A short time later, the shock of an explosion was felt by several of those remaining in the convoy. U.S. destroyers and British patrol craft conducted a three day search of the *Tampa*'s last known position, but found only two unidentified bodies and a small amount of wreckage identified as belonging to the *Tampa*. German records suggest that the *Tampa* was sunk by U-Boat 91 because it had reported sinking an American warship fitting the *Tampa*'s description at that time and date.

One hundred-fifteen people, including 111 Coast Guardsmen and four Navy men, perished that evening. The distinguished record of the officers and crew of the *Tampa* is most heartily commended and is in keeping with the highest traditions of the United States Coast Guard.

Mr. Charles Henry Klingelhoefer and the crew of the *Tampa* laid their lives on the altar of freedom for the benefit our nation and our way of life. On behalf of the United States Congress I would like to express my sincere appreciation for the sacrifices endured by Mr. Charles Henry Klingelhoefer and the crew of the United States Coast Guard Cutter *Tampa*.